



News Release

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PENSION PLAN LIMITATIONS FOR TAX YEAR 2002

WASHINGTON – The Internal Revenue Service today announced the dollar limitations applicable to pension plans that become effective January 1, 2002 under the Economic Growth and Tax Relief Act of 2001 (EGTRRA), and cost-of-living adjustments applicable to dollar limitations for pension plans and other items for Tax Year 2002.

Limitations reset or established by EGTRRA

EGTRRA changed many pension plan limitations and added others. Effective for limitation years ending after December 31, 2001, the limitation on the annual benefit under a defined benefit plan under Internal Revenue Code Section 415(b)(1)(A) is increased from \$140,000 to \$160,000 by Section 611 of EGTRRA. (See Q&A-1 of Rev. Rul. 2001-51, 2001-45 *Internal Revenue Bulletin* 427)

The limitation for defined contribution plans under Section 415(c)(1)(A) is increased from \$35,000 to \$40,000 by Section 611 of EGTRRA effective for limitation years beginning after December 31, 2001. However, the limitation for defined contribution plans with non-calendar limitation years beginning before January 1, 2002, and ending after December 31, 2001, remains unchanged at \$35,000. (See Q&A-9 of Rev. Rul. 2001-51)

The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from \$10,500 to \$11,000 by Section 611 of EGTRRA. This limitation affects elective deferrals to Section 401(k) plans and to the Federal government's Thrift Savings Plan, among other plans.

The annual compensation limit under Sections 401(a)(17), 404(l) and 408(k)(3)(C) is increased from \$170,000 to \$200,000 by Section 611 of EGTRRA.

The limitation under Section 408(p)(2)(E) (formerly under Section 408(p)(2)(A)) regarding SIMPLE retirement accounts is increased from \$6,500 to \$7,000 by Section 611 of EGTRRA.

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The limitation on deferrals under Section 457(e)(15) (formerly under Sections 457(b)(2) and (c)(1)) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$8,500 to \$11,000 by Section 611 of EGTRRA.

The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is \$130,000, as added by Section 613 of EGTRRA.

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or 408 (p) for individuals aged 50 or over is \$1,000. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or 408 (p) for individuals aged 50 or over is \$500. Both of these limitations were added by Section 631 of EGTRRA.

Limitations not reset by EGTRRA

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the Commissioner annually adjust these limits for cost-of-living increases. The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as under Section 415(d). These dollar amounts and the adjusted amounts are as follows:

For participants who separated from service before January 1, 2002, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2001, by 1.0270.

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$780,000 to \$800,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$155,000 to \$160,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) is increased from \$85,000 to \$90,000.

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The annual compensation limitation under Section 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under Section 401(a)(17) to be taken into account, is increased from \$285,000 to \$295,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$450.

The compensation amounts under Section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes is increased from \$75,000 to \$80,000. The compensation amount under Section 1.61-21(f)(5)(iii) is increased from \$155,000 to \$160,000.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.

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